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Volume 42, June 2008 Abstracts

Rick Tilman

Institutional Economics as Social Criticism and Political Philosophy

Institutional economists make certain philosophical assumptions that have related political and sociocultural objectives. These are outlined here and their doctrinal and behavioral implications explored. Evolutionary naturalism with its Darwinian and pragmatic roots is delineated, its significance for a left-liberal politics aimed at social engineering and a more egalitarian collectivism further developed. Social reconstruction of a non-invidious and non-emulatory kind and the political means for achieving it is suggested. The political action necessary for the renovation of existing atavistic continuities such as corporate-commercial class-based hegemony, nihilistic and anarchistic individualism, and religious conservatism is tentatively and provisionally advanced. In short, both the means and ends and much of the metatheoretical basis of institutional economics are outlined to encourage a more publicly visible and self-conscious intellectual posture on the part of evolutionary social scientists. One which focuses on its doctrinal basis, political aims and long term policy intent as well as on the personal deportment of institutionalists themselves. J. Econ. Issues, June 2008, 42 (2), pp. 289-301. Northern Arizona University.

Glen Atkinson

Purpose and Measurement of National Income and Product

Institutional economists were leaders in the development of national income and product accounts. The accounts were created to assist in understanding such issues as the effects of the rise of corporate ownership on the distribution of income, the causes of modern business cycles and war finance on the performance of the economy. This article reviews the assumptions to develop these accounts and how they shaped our understanding of the economy. Readers are encouraged to review these assumptions and consider ways that we might improve our measurements to deal more effectively with current problems. *J. Econ. Issues*, June 2008, 42 (2), pp. 302-316. University of Nevada-Reno.

Carsten Hermann-Pillath

Deducing Principles of Economics from Ontological Constraints on Information

Institutional economics posits a tension between technological progress and institutional change. I reformulate this idea in the context of universal evolutionary theory, starting out from the definition of knowledge as a set of evolving rules with physical substance. From this follows: 1) the theory of the economic agent has to be based on the analysis of phylogenetic constraints on the brain/mind, and 2) the evolution of knowledge manifests the Handicap Principle, in the sense that truthful information in universal systems of communication comes at a loss of adaptive efficiency. This vindicates the original institutionalist theory. *J. Econ. Issues*, June 2008, 42 (2), pp. 317-325. Frankfurt School of Finance and Management.

Mario Cimoli and Sebastián Rovira

Elites and Structural Inertia in Latin America: An Introductory Note on the Political Economy of Development

This paper deals with the idea that the production structure and knowledge diversification define the feasible set of conditions for income distribution and elite concentration. The evidence supports the notion that a diversified knowledge structure generates and distributes rents in a more equitable way. Rents are distributed according to the different competencies (skills and capabilities) and complementarities needed to produce complex products that incorporate knowledge. A production structure based on natural resources or

on cheap labor generates rent-seeking behavior reinforcing that pattern and resisting structural change. The paper shed light on the role played by these factors in Latin America. *J. Econ. Issues*, June 2008, 42 (2), pp. 327-347. University of Venice, Italy and Economic Affairs Officer, ECLAC (Economic Commission for Latin America and the Caribbean); and the University of Siena, Italy, and researcher at ECLAC.

John Hall and Oliver Whybrow

Continuity and Continuousness: The Chain of Ideas Linking Peirce's Synechism to Veblen's Cumulative Causation

This paper seeks to establish that a chain of ideas connects and effectively links together core thoughts advanced by philosopher Charles Peirce with economist Thorstein Veblen. Peirce introduced into 19th century American philosophical inquiry the ancient Greek understanding of continuity and continuousness — derived from “synechism.” We argue that Peirce’s understanding and use of synechism serves as the foundation for Veblen’s understanding and formation of the concept and principle of “cumulative causation.” This stands at the center of Veblen’s attempts to introduce evolutionary thinking into modern economics. *J. Econ. Issues*, June 2008, 42 (2), pp. 349-355. Portland State University and the Institute for Economic Research-Halle, Germany; and the University of Leuven, Belgium

Sebastian Berger

Circular Cumulative Causation (CCC) à la Myrdal and Kapp — *Political Institutionalism for Minimizing Social Costs*

This paper reconstructs the CCC from the writings of Myrdal and Kapp to explore the unique characteristics of this key concept of institutional economics. Moreover, the paper demonstrates the CCC’s application to minimize social costs and its implications for *Political Institutionalism*. Incorporating new unpublished material from the Kapp Archive, namely the Myrdal-Kapp correspondence and Kapp’s CCC lecture notes, the paper provides insights about the cooperation between the two economists and about Kapp’s conceptual understanding of CCC. In addition, important differences to Veblen’s CC^V and Kaldor’s CC^K are pointed out to underline the CCC’s uniqueness and its significance for institutional economics. *J. Econ. Issues*, June 2008, 42 (2), pp. 357-365. Roanoke College.

Steven Pressman and Richard P.F. Holt

Nicholas Kaldor and Cumulative Causation: Public Policy Implications

This paper shows how cumulative causation supports Kaldor's main policy proposals. Kaldor advocated an expenditure tax to encourage savings, which would lead to technological advancement, productivity growth, income growth, and more savings. Second, Kaldor argued that tax policy should favor the manufacturing sector. Because productivity growth is greater there, this would lead to greater aggregate productivity growth and income growth, which increases the demand for manufactured goods and leads to a virtuous cycle of growth and improved living standards. Finally, Kaldor used cumulative causation arguments against monetarism and to support an incomes policy to stop the inflationary wage-price spiral. *J. Econ. Issues*, June 2008, 42 (2), pp. 367-373. Monmouth University and Southern Oregon University.

Phillip Anthony O'Hara

Principle of Circular and Cumulative Causation: Fusing Myrdalian and Kaldorian Growth and Development Dynamics

This paper seeks to promote the development of the principle of circular and cumulative causation (CCC) through integrating social and economic dimensions as applied to historical problems. It starts by examining the similarities and differences between Myrdalian and Kaldorian circular and cumulative causation. It shows that the similarities help link the approaches, while the differences enable complementary specializations. There are core elements in both traditions plus specializations that are complementary. A degree of convergence exists between these traditions of institutional and post Keynesian schools, enhancing the analytical spread of vision of contemporary political economy. *J. Econ. Issues*, June 2008, 42 (2), pp. 375-387. Curtin University, Perth, Australia.

F. Gregory Hayden

Circular and Cumulative Causation and the Social Fabric Matrix

This study combines the problem orientation of instrumentalism and the systems analysis of circular and cumulative causation (CCC) through the utilization of a social fabric matrix (SFM) and network digraph. The SFM is utilized to articulate part of the Nebraska State system used to distribute state funds among local K-12 public schools. The empirical content is used to derive conceptual conclusions about CCC and to make comments about a

controversy regarding agents, institutions, and new rule development. This study provides a refinement of CCC, and it confirms that rules are not the result of self-action by agents. J. Econ. Issues, June 2008, 42 (2), pp. 389-397. University of Nebraska.

Geoffrey M. Hodgson

How Veblen Generalized Darwinism

The inspiration of Darwin on Veblen is well known. However, the manner in which Veblen incorporated Darwinian ideas is inadequately appreciated. Veblen not only adopted Darwinian strictures on the causal explanation of the individual agent but also upheld that Darwinian principles of inheritance and selection applied to individual habits and social institutions. This amounts to the generalization of Darwinian principles to socio-economic evolution. J. Econ. Issues, June 2008, 42 (2), pp. 399-405. University of Hertfordshire, Hatfield, UK.

Clifford S. Poirot, Jr.

Eat Grubs and Live: The Habit-Instinct Problem in Institutional Evolutionary Economics

This paper addresses a longstanding controversy in Institutional-Evolutionary Economics about whether or how Darwin's theory of biological evolution can apply to social evolution. It compares and contrasts the view of Evolutionary Psychology with those of Veblen and places Veblen's contributions in the context of 19th century Darwinism and turn of the century anthropology. It argues that Veblen explains social evolution through changes in the application of intelligent reasoning to the problems of material provisioning. An important implication of this paper is that while Darwinian and Neo-Darwinian concepts are relevant to cultural evolution, there are significant limits to their application. J. Econ. Issues, June 2008, 42 (2), pp. 407-413. Shawnee State University.

J.W. Stoelhorst

Darwinian Foundations for Evolutionary Economics

This paper engages with the methodological debate on the contribution of Darwinism to Veblen's (1898) evolutionary research program for economics. I argue that ontological continuity, generalized Darwinism, and multi-level

selection are necessary building blocks for an explanatory framework that can fulfill the promise of Veblen's program. I clarify the causal logic of generalized Darwinism and suggest an ontology for the study of economic development on the basis of multi-level selection theory. Conceptualizing economic development along these lines has interesting implications for the evolutionary analysis of institutions: institutions only become units of selection in the competition between groups of individuals. J. Econ. Issues, June 2008, 42 (2), pp. 415-423. University of Amsterdam.

Richard L. Brinkman and June E. Brinkman

Globalization and the National-State: Dead or Alive

Has the current process of globalization led to a decline in nation-state sovereignty? To address this question there is a need to clarify the concepts of the nation-state and nationalism. A decline in U.S. nation-state sovereignty would serve to promote megacorporate power manifest in the rise of the corporate state over that of the nation-state. Evidence of U.S. nation-state decline appears in many areas, such as that of Article XVI in the WTO and policies of the IMF. The decline in nation-state sovereignty is also evident in U.S. policies of privatization manifest in the War Service Industry (WSI). J. Econ. Issues, June 2008, 42 (2), pp. 425-433. Portland State University.

John Adams and Frank Raymond

“Did Yunus Deserve the Nobel Peace Prize: Microfinance or Macrofarce?”

In 2006, Muhammad Yunus, a Bangladeshi economist, won the Nobel Peace Prize. Yunus's key innovation was to create loan circles, usually of five women, who used social suasion to ensure high repayment rates and sustain their creditworthiness. This institutional structure helps resolve a number of information, incentive, and enforcement dilemmas that plague small banks catering to a large number of poor clients who lack credit histories. Enthusiasm for the Grameen model has far outdistanced rigorous analysis of its institutional and incentive features; likewise, valid benefit-cost or statistical studies of impacts are rare. Did Yunus and Grameen merit the Peace Prize? J. Econ. Issues, June 2008, 42 (2), pp. 435-443. University of Virginia and Bellarmine University.

Daphne T. Greenwood and Richard P.F. Holt

Institutional and Ecological Economics: The Role of Technology and Institutions in Economic Development

This paper examines the roles of institutions and technology in economic development from the institutionalist perspective as well as from that of ecological economists who are concerned with sustainability of development. Both schools are critical of mechanistic, deterministic models used in neoclassical economics, of over reliance on market solutions, and of “value free” economics. Both use biological metaphors to describe the operation of economies. But there are important differences in how ecological and institutional economists have approached growth and development, primarily whether technology and human knowledge are inherently leading to destructive consequences and whether natural forces or institutions are the ultimate constraint to economic growth. *J. Econ. Issues*, June 2008, 42 (2), pp. 445-452. University of Colorado and Southern Oregon University.

Janice Peterson

Unemployment Insurance Reform: Elements of a Social Provisioning Approach

Unemployment Insurance (UI) has played an important role in efforts to provide economic security for American workers for over 70 years. Analysts from across the political spectrum, however, argue that the UI system has not kept up with the needs of the changing economy and workforce, and reforms are needed to modernize the system. This article examines recent UI reform proposals that seek to enhance the program’s “social provisioning” function – that is, to increase the ability of different groups of unemployed workers to receive UI benefits and improve the UI system’s provisions for the long-term unemployed. *J. Econ. Issues*, June 2008, 42 (2), pp. 453-460. California State University-Fresno.

Stephen P. Paschall

John R. Commons’ Contributions to Health Care Reform in the 21st Century

The analytical methods of John R. Commons, including his emphasis on security of expectations, transactions and the importance of public sovereignty, are applied to the issues of health care reform. Historically the development of the third-party payment system has improved security of expectations, reduced the economic power of the health care provider, and created a rationing

transaction for health care. This analysis and Commons' advocacy for compulsory health insurance to be provided through mutual insurance companies under control of employers, government, and workers supports a single-payer system of universal health care coverage under public governance today. *J. Econ. Issues*, June 2008, 42 (2), pp. 461-468. Lovett Bookman Harmon Marks LLP, Pittsburgh, Pennsylvania.

Harry M. Trebing

A Critical Assessment of Electricity and Natural Gas Deregulation

Economic deregulation of electric and gas utilities has failed to achieve its proposed objectives of lowering price, promoting greater consumer choice, constraining market power, and improving infrastructure performance. Concentration has grown, deregulated price increases exceed prices where regulation was maintained, and supposedly free markets do not assure control of market power or cost effectiveness in achieving environmental protection. An agenda for re-regulation is proposed. These reforms would continue the work of Institutional economists in the field of public utility economics. *J. Econ. Issues*, June 2008, 42 (2), pp. 469-477. Michigan State University.

Burl Haar

Economic Regulation – The Lights are Still On: A View from the Inside

State utility regulators recently expressed uncertainty about the meaning of the public interest concept as it applies to utility services. The article analyzes the technological, political, policy and economic factors contributing to this uncertainty and urges that regulatory theory must acknowledge a paradigm shift brought on by the re-emergence of oligopoly market structure in utility industries. *J. Econ. Issues*, June 2008, 42 (2), pp. 479-487. Minnesota Public Utilities Commission.

Paul Susman and Geoffrey Schneider

Institutional Challenges in the Development of the World's First Worker-Owned Free Trade Zone

The theory of grounded comparative institutional advantage offers a framework for examining institutions that advantage and disadvantage specific types of economic activity in particular places. A case study of a Nicaraguan women's sewing cooperative, the world's first worker-owned free trade zone,

reveals contradictory institutional biases both promoting and inhibiting exports. Formal institutions, e.g. regulations forcing the coop to form a non-cooperative business to benefit from CAFTA, and informal institutions, such as an NGO assisting the women cope with CAFTA Tariff Preference Levels, gain credit, and control inventory, form the complex web that small actors must navigate to export their goods. *J. Econ. Issues*, June 2008, 42 (2), pp. 489-498. Bucknell University.

Aristidis Bitzenis and John Marangos

The Role of Risk as an FDI Barrier to Entry during Transition: The Case of Bulgaria

This article reports the results of a questionnaire that was designed to extract information regarding the determinants of foreign direct investment (FDI) in Bulgaria during the post-communist decade of the 1990s. We surveyed established multinationals in Bulgaria in order to discover their perceptions regarding the business environment. From the results of the survey, 52% of the total number of foreign investors stated that their investment in Bulgaria is of high risk. We explored whether the high risk environment in Bulgaria has been affected either by the foreign entry mode, the prior trade relations, the invested amount, the sector that the multinational operates, and finally the origin of the MNE. *J. Econ. Issues*, June 2008, 42 (2), pp. 499-508. University of Macedonia and Colorado State University.

P. Sai-wing Ho

Arguing for Policy Space to Promote Development: Prebisch, Myrdal, and Singer

Prebisch, Myrdal, and Singer have often been misrepresented as advocating nothing but import-substitution. They were actually alert to its pitfalls. They also ardently supported promoting exports. Prebisch and Singer separately expressed sensible caution against the impact of unregulated foreign direct investments (FDI). Singer also emphasized the importance of cultivating indigenous technological capabilities. Collectively, they thus strongly advocated the preservation of policy space for imports *and* exports, directing FDI, and borrowing and cultivating technologies. By distorting their messages, the economics mainstream has dominated the intellectual debate and contributed to the shrinkage in policy space beginning from the Uruguay Round trade negotiations. *J. Econ. Issues*, June 2008, 42 (2), pp. 509-516. University of Denver.

Wilfred Dolsma and Antoon Spithoven

“Silent Trade” and the Supposed Continuum between OIE and NIE

New Institutional Economics (NIE) claims that Silent Trade exists. Indeed, it would constitute the first step 'as trade moves beyond the border of the village' (North). In this brief article we show both that Silent Trade – trade between parties who have only the most minimal of a shared frame of reference, without direct contact – has not existed and that NIE cannot account for the representational re-description and change in governance structure that it would entail. At least on the issue of language and learning, NIE is categorically different from Original Institutional Economics (OIE). *J. Econ. Issues*, June 2008, 42 (2), pp. 517-526. University of Groningen School of Economics and Business and the Utrecht School of Economics.

David Dequech

Logics of Justification and Logics of Action

This article attempts to contribute to the debate on institutional logics, logics of action, identities, and the like, as part of the larger debate about both the concept of institutions and the theory of how institutions influence our thought and behavior. It proposes a distinction between logics of justification and logics of action. The establishment of a metric for worth does not always have to be associated with a logic of justification. In addition, in some situations justification may not be necessary. Furthermore, a person may do something for a reason and claim to have done it for another reason. *J. Econ. Issues*, June 2008, 42 (2), pp. 527-535. University of Campinas, São Paulo, Brazil.

Baldwin Ranson

Confronting Foster’s Wildest Claim: “Only the Instrumental Theory of Value Can be Applied!”

The Instrumental criterion of judgment – in vulgar terms, “what works” – is universally recognized as applicable to and appropriate for answering questions about means for achieving given practical ends. Few accept it as appropriate for choosing means to moral or ethical ends, and even fewer accept it as appropriate for choosing all ends as well as all means. Such is Foster’s position, carefully expounded in his newly available lecture notes on value theory.

This paper rebuts critics, tries to clarify the meaning of Foster’s theory,

establishes the grounds on which it rests, and argues for its accuracy and usefulness. J. Econ. Issues, June 2008, 42 (2), pp. 537-544. Retired.

Anna Klimina

Veblenian Concept of Habit and Its Relevance to the Analysis of Captured Transition

The paper explores the Veblenian concept of habit and shows how Veblen's recognition of a significant degree of permanence of informal but economically justified habitual constraints coupled with conditions of institutional instability helps clarify the emergence and persistence of oligarchic influence in captured transition. The paper suggests using Veblen's understanding of habits as propensities in modelling the path of transforming clannish transition economies to democratic markets since only profound changes in formal institutions will lead to a change in informal behavioral constraints to the desired degree. Two-tier pay-off diffusion – Gintis-Bowles (1998) – cultural transmission model is used to illustrate conclusions. J. Econ. Issues, June 2008, 42 (2), pp. 545-552. St. Thomas More College, University of Saskatchewan.

David Cayla

Organizational Learning: A Process Between Equilibrium and Evolution

This paper aims to analyze learning as a two-type process. A *dynamic equilibrium process* represents a stable learning process that may express an individualistic behavioral learning or an organizational adaptation. A *teleological process* represents an intentional, goal-oriented, learning process. This second type of learning can express an individualistic cognitive learning or a managerial organizational change. It is argued that this learning typology can help in understanding why similar organizations or individuals may learn differently when confronted with the same environmental stimuli. J. Econ. Issues, June 2008, 42 (2), pp. 553-559. University Pantheon-Sorbonne.

Robert W. Dimand and Robert H. Koehn

Galbraith's Heterodox Teacher: Leo Rogin's Historical Approach to the Meaning and Validity of Economic Theory

At Berkeley, John Kenneth Galbraith studied with "Leo Rogin, a teacher who established himself firmly in the affections of all my generation. ... In the early thirties, years before the Keynesian revolution, Leo Rogin was discussing Keynes with a sense

of urgency that made his seminars seem to graduate students the most important things then happening in the world." Rogin's magnum opus, *The Meaning and Validity of Economic Theory: A Historical Approach* (1956), published after his death, was widely reviewed, but (like Rogin himself) is now largely forgotten. We examine Rogin's critical, historical approach to economic theory, and Rogin's role in introducing Galbraith in a critical spirit to classical economics, Marx, Keynes (of the *Treatise on Money*), German historical economics (especially Sombart), and the institutionalist tradition of Rogin's teacher Wesley Mitchell. *J. Econ. Issues*, June 2008, 42 (2), pp. 561-568. Brock University, St. Catharines, Ontario, Canada.

William H. Redmond

Formal Institutions in Historical Perspective

Modern humans (*Homo sapiens*) are thought to have evolved about 100,000 years ago. However, evidence of formal institutions in human society dates from less than 10,000 years ago. The paper outlines possibilities that may have enabled, or possibly necessitated, the emergence of formal institutions out of a past which contained solely informal ones. Two leading factors appear to be concentration of a growing population into urban centers and concentration of economic surplus into the hands of an elite. Formal institutions represent a technology that facilitates control over people and is compatible with hierarchical social systems and property accumulation. *J. Econ. Issues*, June 2008, 42 (2), pp. 569-576. Indiana State University.

Matthew C. Wilson

Veblen on Interpreting Veblen

Was Veblen a radical social critic? Was he an evolutionary scientist? Or was the gist of his argument, in some sense, a reflection of both? In order to shed light on these questions, the paper focuses on an important exchange between Veblen and one of his critics, John Cummings. It is argued that, unlike the theories of classical apologists and radical critics before him, Veblen's theory was not intended as a theory of just desserts. *J. Econ. Issues*, June 2008, 42 (2), pp. 577-582. The University of Denver.